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BY THE COMPTROLLER GENERAL

Report To The Congress

OF THE UNITED STATES

Examination Of The Federal Home Loan Bank Board's Financial Statements For The Years Ended December 31, 1984 And 1983

GAO examined the Federal Home Loan Bank Board's financial statements for the years ended December 31, 1984 and 1983. The examinations were made in accordance with generally accepted government auditing standards.

In GAO's opinion, the financial statements present fairly the financial position of the Federal Home Loan Bank Board as of December 31, 1984 and 1983, the results of its operations, and the changes in its financial position for the years then ended, in conformity with generally accepted accounting principles.



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GAO/AFMD-85-59
JULY 3, 1985

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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

B-206830

To the President of the Senate and the
Speaker of the House of Representatives

This report transmits our opinion on the Federal Home Loan Bank Board's financial statements for the years ended December 31, 1984 and 1983. Appendix I is our report on the Board's system of internal controls, and appendix II is our report on the Board's compliance with laws and regulations.

The Federal Home Loan Bank Board is an independent agency which formulates policies for and supervises the operation of the 12 Federal Home Loan Banks, the Federal Savings and Loan Insurance Corporation, and the system of federal savings and loan associations. The Bank Board under 12 U.S.C. 1438 (c)(6) is subject to the audit provisions applicable to wholly owned government corporations, 31 U.S.C. 9105, which require the Comptroller General to audit the financial transactions of such corporations. We conducted our examinations in accordance with generally accepted government auditing standards.

We are sending copies of this report to the Director of the Office of Management and Budget, the Secretary of the Treasury, and the Chairman of the Federal Home Loan Bank Board.

A handwritten signature in black ink that reads "Milton J. Fowler".

Acting Comptroller General
of the United States



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON D.C. 20548

May 10, 1985

B-206830

The Honorable Edwin J. Gray
Chairman, Federal Home Loan
Bank Board

Dear Mr. Gray:

We have examined the statements of condition of the Federal Home Loan Bank Board as of December 31, 1984 and 1983, and the related statements of income and expenses and retained earnings, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the financial position of the Federal Home Loan Bank Board as of December 31, 1984 and 1983, and the results of its operations and changes in financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Sincerely yours,

A handwritten signature in cursive script that reads "Milton J. Fowler".

Acting Comptroller General
of the United States

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REPORT ON INTERNAL ACCOUNTING CONTROLS

We have examined the financial statements of the Federal Home Loan Bank Board for the years ended December 31, 1984 and 1983, and have issued our report thereon. As part of our examinations, we made a study and evaluation of the system of internal accounting controls to the extent we considered necessary to evaluate the system as required by generally accepted government auditing standards. This report pertains only to our study and evaluation of internal accounting controls for the year ended December 31, 1984. (Our report on internal accounting controls for the year ended December 31, 1983, is presented in GAO/AFMD-84-47, May 30, 1984.) For the purpose of this report, we have classified the significant internal accounting controls in the following categories:

- expenditures,
- financial reporting,
- revenues, and
- treasury activities.

Our study included all of the control categories listed above. However, we did not evaluate the accounting controls over financial reporting and treasury activities because it was more efficient to expand substantive audit tests. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the Board's financial statements. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls identified above.

The management of the Federal Home Loan Bank Board is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable, but not absolute, assurance that (1) assets are safeguarded against loss from unauthorized use or disposition and (2) transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of the inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate.

Our study and evaluation was made for the limited purpose described in the first paragraph and would not necessarily disclose all material weaknesses in the system. Accordingly, we do

not express an opinion on the system of internal accounting control of the Federal Home Loan Bank Board taken as a whole or on any of the categories of controls identified in the first paragraph. However, our study and evaluation disclosed no condition that we believed to be a material weakness.

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

We have examined the financial statements of the Federal Home Loan Bank Board for the years ended December 31, 1984 and 1983, and have issued our report thereon. Our examinations were made in accordance with generally accepted government auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures, including tests of compliance with laws and regulations, as we considered necessary in the circumstances. This report pertains only to our review of compliance with laws and regulations for the year ended December 31, 1984. (Our report on compliance with laws and regulations for the year ended December 31, 1983, is presented in GAO/AFMD-84-47, 5/30/84.)

In our opinion, the Bank Board complied with the terms and provisions of laws and regulations for the transactions tested that could have materially affected the financial statements.

Nothing came to our attention in connection with our examination that caused us to believe that the Board was not in compliance with the terms and provisions of applicable laws and regulations for those transactions not tested.

FEDERAL HOME LOAN BANK BOARD
COMPARATIVE STATEMENT OF CONDITION
DECEMBER 31, 1984 AND 1983

<u>Assets</u>	<u>1984</u>	<u>1983</u>
Cash with U. S. Treasury.....	\$ 1,087,619	\$ 1,216,273
Accounts Receivable.....	11,542,921	11,831,762
Land and Building (Note 1).....	45,892,318	46,079,996
Furniture, Fixtures and Equipment (Note 1)....	5,563,463	4,010,858
Other Assets.....	<u>-0-</u>	<u>351,155</u>
Total Assets.....	64,086,321 =====	63,490,044 =====
 <u>Liabilities and Capital</u>		
Accounts Payable and Accrued Liabilities.....	5,673,485	6,634,407
Employees Accrued Annual Leave.....	<u>3,577,581</u>	<u>3,307,842</u>
Total Liabilities.....	<u>9,251,066</u>	<u>9,942,249</u>
Retained Earnings.....	10,250,975	8,963,515
Paid in Capital - FHLBB Quarters.....	<u>44,584,280</u>	<u>44,584,280</u>
Total Capital (Note 5).....	<u>54,835,255</u>	<u>53,547,795</u>
Total Liabilities and Capital.....	\$ 64,086,321 =====	\$ 63,490,044 =====

The accompanying notes are an integral part of these financial statements.

FEDERAL HOME LOAN BANK BOARD
COMPARATIVE STATEMENT OF INCOME AND EXPENSES
AND RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1984 and 1983

	<u>1984</u>	<u>1983</u>
<u>Income</u>		
Examination Fees from Savings and Loan Institutions..	\$ 17,161,428	\$ 16,171,990
Assessments:		
Federal Home Loan Banks.....	11,863,914	11,196,442
Federal Savings and Loan Insurance Corporation..	28,365,685	30,276,418
Savings and Loan Institutions.....	11,486,490	8,395,488
Rent and Miscellaneous Other.....	<u>2,664,269</u>	<u>2,242,709</u>
Total Income.....	<u>71,541,786</u>	<u>68,283,047</u>
<u>Expenses</u>		
Personnel Compensation.....	43,078,619	42,610,772
Personnel Benefits (Note 4).....	5,124,326	5,040,114
Travel and Transportation.....	7,791,141	8,313,093
Rent, Communication, and Utilities.....	5,874,695	4,506,866
Depreciation:		
Furniture, Fixtures, and Equipment.....	800,844	714,478
Building.....	885,958	859,698
Building Maintenance and Other Services.....	<u>6,698,743</u>	<u>5,533,418</u>
Total Expenses.....	<u>70,254,326</u>	<u>67,578,439</u>
Net Income.....	1,287,460	704,608
Retained Earnings at Beginning of Year.....	<u>8,963,515</u>	<u>8,258,907</u>
Retained Earnings at End of Year (Note 5)	\$ 10,250,975 =====	\$ 8,963,515 =====

The accompanying notes are an integral part of these financial statements.

FEDERAL HOME LOAN BANK BOARD
COMPARATIVE STATEMENT OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 1984 AND 1983

	<u>1984</u>	<u>1983</u>
<u>Source of Funds</u>		
Net Income.....	\$ 1,287,460	\$ 704,608
Adjustment for Non-Cash items:		
Depreciation.....	1,686,802	1,574,176
Increase (Decrease) in Accrued Annual Leave.....	<u>269,739</u>	<u>(33,622)</u>
Funds Provided From Operations.....	3,244,001	2,245,162
Decrease (Increase) in:		
Accounts Receivable.....	288,841	(909,093)
Other Assets.....	<u>351,155</u>	<u>(88,598)</u>
Total Funds Provided.....	<u>3,883,997</u>	<u>1,247,471</u>
<u>Application of Funds</u>		
Acquisition of Capital Assets.....	3,051,729	1,003,806
Decrease (Increase) in Accounts Payable and Accrued Liabilities.....	960,922	(658,919)
Prior Year Adjustment (Note 3).....	<u>-0-</u>	<u>726,447</u>
Total Funds Applied	<u>4,012,651</u>	<u>1,071,334</u>
Increase (Decrease) in cash.....	\$ (128,654) =====	\$ 176,137 =====

The accompanying notes are an integral part of these financial statements.

FEDERAL HOME LOAN BANK BOARD
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1984 AND 1983

1. Summary of Significant Accounting Policies:
 - a. Furniture, Fixtures and Equipment - Cost of Furniture, Fixtures and Equipment at December 31, 1984 and 1983 were \$10,387,538 and \$8,135,222, less accumulated depreciation of \$4,824,075 and \$4,124,364, respectively. Depreciation is computed on the straight-line method based on an 11 year useful life.
 - b. Land and Building - These assets are recorded at cost less accumulated depreciation for the building. Cost of land was \$10,165,227. Building costs at December 31, 1984 and 1983, were \$41,570,177 and \$40,871,896, less accumulated depreciation of \$5,843,086 and \$4,957,127, respectively. Depreciation for the building is computed on the straight-line method over 50 years.
2. Related Party Transactions - The twelve District Federal Home Loan Banks (FHLBanks), together with their member institutions, comprise the FHLBank System. The FHLBank System is governed and regulated by the Federal Home Loan Bank Board (Bank Board) which is an independent Federal agency in the executive branch of government. The Bank Board is the chartering and regulatory authority for the federal savings and loan associations and federal mutual savings banks. Further, the Bank Board, through the Federal Savings and Loan Insurance Corporation (FSLIC), governs the insurance of accounts in savings and loan associations and mutual savings banks. Bank Board expenses are met through assessments from the FHLBanks and the FSLIC and from member institutions for examinations.

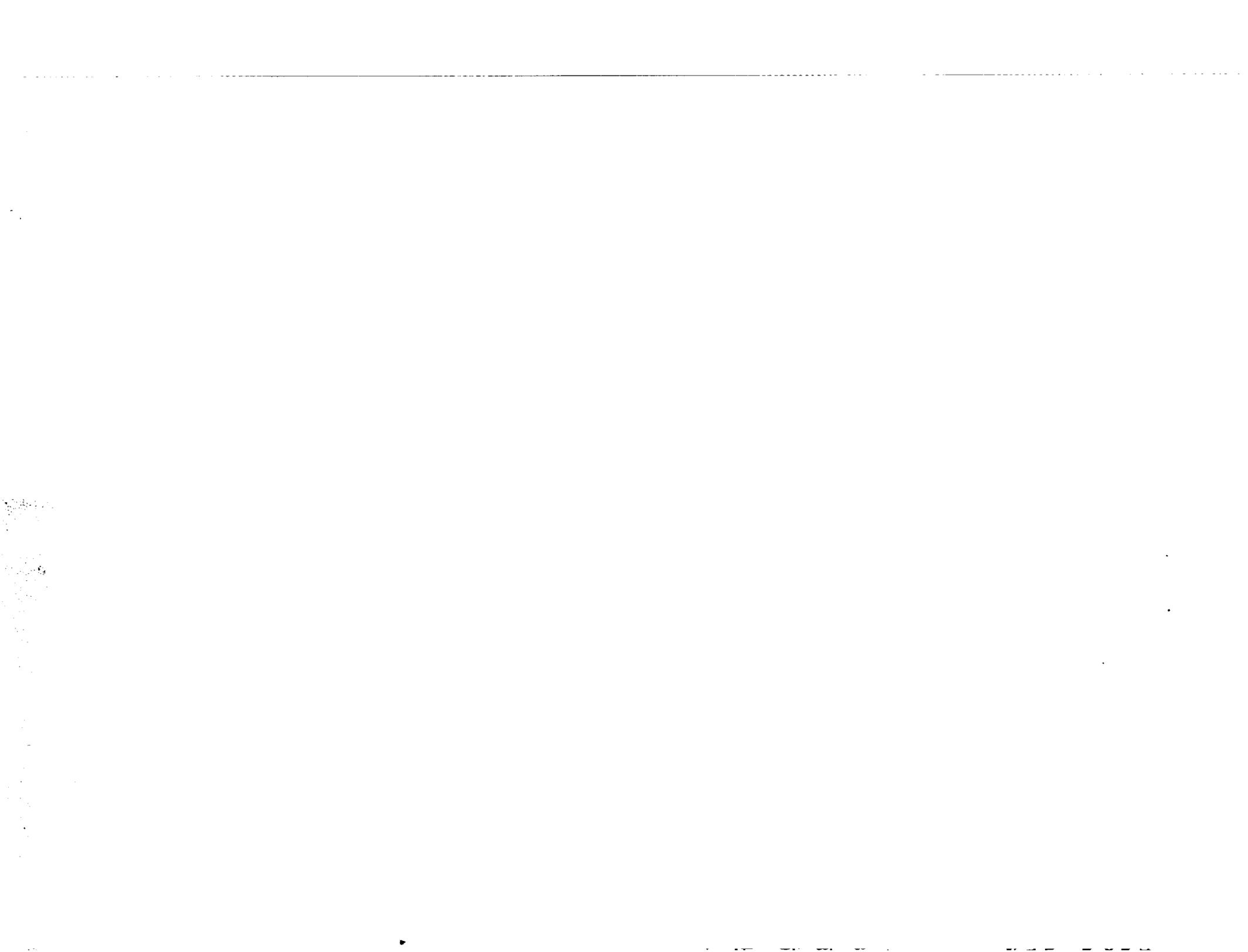
On March 14, 1985, the Bank Board voted to delegate the responsibility for examinations of member institutions to the Federal Home Loan Banks and, at the same time, to transfer the entire District Office staff to the 12 Federal Home Loan Banks. This action becomes effective on July 6, 1985. The Bank Board is confident that this organizational change will improve the Agency's operational effectiveness and will enable it to respond more successfully to the complex challenges posed by thrift industry.
3. Assessment Cancellation - Based on an analysis of FHLBank assessments and the Bank Board's cash requirements and retained earnings, FHLBank assessments for capital expenditures during the period January 1, 1978 through June 30, 1979 were cancelled in December 1984. The assessments were authorized by Federal Home Loan Bank Board resolutions 78-9, 78-431 and 79-132 and were no longer required because capital expenditure needs for that period had been completed without requesting the additional payment. Therefore, the unpaid assessment of \$726,447 was cancelled and retained earnings was reduced by this amount.

4. Retirement Plan - All permanent, full-time and part-time employees who were employed by the Bank Board prior to January 1, 1984 are covered by the contributory Civil Service Retirement Plan. The Bank Board makes bi-weekly contributions to the plan equal to the employees' bi-weekly contribution. Employees hired after January 1, 1984 fall under the Social Security Act; however, they also contribute 1.3% and the Bank Board 7% to the Civil Service Retirement Plan. The retirement plan expenses incurred for calendar years 1984 and 1983 were \$2,870,492 and \$2,860,835 respectively.

5. Capital:

	<u>1984</u>	<u>1983</u>
Retained Earnings at Beginning of Year	\$ 8,963,515	\$ 8,985,354
Assessment Cancellation (Note 3)	-0-	(726,447)
Adjusted Beginning Retained Earnings	<u>8,963,515</u>	<u>8,258,907</u>
Net Income	<u>1,287,460</u>	<u>704,608</u>
Retained Earnings at End of Year	<u>10,250,975</u>	<u>8,963,515</u>
Paid-in-Capital at Beginning and End of Year	<u>44,584,280</u>	<u>44,584,280</u>
Total Capital End of Year	<u>\$54,835,255</u> =====	<u>\$53,547,795</u> =====

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